

## Deal Terms

1 CELG = \$50 + 1 BMY + 1 CVR (\$9/share)

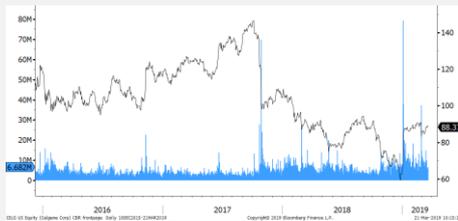
### Target: Celgene

Country	US
Bloomberg	CELG
Sector	Biotech
Share price (USD)	88.37
Market cap (USDm)	62,050.3
Free float (%)	100

### Acquirer: Bristol-Myers Squibb

Country	US
Bloomberg	BMY
Sector	Pharma
Share price (USD)	49.19
Market cap (USDm)	80,311.3
Free float	100

### CELG Price Chart (Last 12 months)



## Status

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# Celgene (CELG) / Bristol-Myers Squibb (BMY)

## Update

### CBR View:

- We expect significant spread tightening on positive recommendation by proxy advisors/BMY shareholder approval as remaining risks (regulatory approvals, MAC, IP issues, timing) do not warrant a huge spread in our view.

### Starboard presentation:

- Starboard's main concerns about the deal are pipeline valuation (allocation of synergies), potential revenues from pipeline drugs and the process that led to the acquisition.
- We believe that Starboard's arguments are flawed with regards to **synergy allocation** and acquisition cost of CELG's pipeline. We believe - and BMY explicitly states in its presentation - that **synergies should derive from the merged entity, therefore not only CELG's operations** (existing and pipeline drugs), but also BMY's. Thus, in theory BMY might allocate totality of synergies to the existing portfolio of the two companies, which might justify its pipeline acquisition price calculations.
  - Even if one allocates some of the synergies to the pipelines of CELG and BMY, the acquisition price of the pipeline should be significantly lower than what Starboard estimates.
  - At an acquisition price (pipeline) closer to BMY's estimate, the pipeline's NAV is likely to be attractive even if one assumes sales estimates somewhat lower than BMY's management.

### Proxy advisors:

- Proxy advisor's recommendation will be key in our view and we expect significant spread tightening in case they recommend shareholders to approve the merger.
- We don't see proxy advisors issue adverse recommendation as financially the deal is attractive, which would be hard to match with alternative actions. BMY management is comfortable with the IP situation and CELG pipeline, ISS and Glass Lewis are unlikely to challenge that in our view.
- We note that in past deals, passive shareholders tended to approve deals where there was split recommendation by ISS and Glass Lewis and at least one of them recommended approval.

### Counter-bid

- We don't see a bid likely based on potential bidders' recent comments, current portfolio or finances.
- Activists have approached BMY in the past without any success in terms of M&A.
- Only a few companies are large enough to acquire BMY.
- Pfizer and Novartis ruled themselves out in recent weeks. Roche and Merck have their own IO drugs. Sanofi does not appear to have room on its balance sheet (~3x leverage) to offer a significant cash element. Sanofi said in their JPM Healthcare presentation earlier this year that the focus is on the integration of Ablynx and Bioverativ, however they still have EU7b for bolt-ons. JNJ is in crisis due to their asbestos scandal. JNJ was rumored to show interest in BSX and Nestle's skincare unit recently. Novartis just bought Endocyte, may make complementary takeovers in a volume of as much as \$15b, its CEO said.
- Based on its size, portfolio and balance sheet we believe that Amgen might be a potential bidder. The co did not rule out large acquisitions in its earnings call, however noted that there are more small opportunities than large ones. They recently struck an IO deal with Molecular Partners.
- We note that given the short timeframe until the shareholder vote, one might consider under-hedging the CELG long position or even completely unwind BMY short positions.

### Downside:

- We estimate CELG downside ~\$72 (no break fee included)

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